

IEEE Clarifies RAND Commitment for Standard-Essential Patents: Institute of Electrical and Electronics Engineers

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On February 8, 2015, the Board of Governors of the **Institute of Electrical and Electronics Engineers (“IEEE”)** approved changes to the IEEE **Patent Policy** that provide additional specificity as to the nature of the obligation attaching to member-owned patents that are essential to an IEEE standard. See Approved Changes to IEEE-SA Standards Board Bylaws § 6 *et seq.* IEEE, like many standards-setting organizations (“SSOs”), had previously required its members that own patents to be incorporated into a standard (“standard-essential patents” or “SEPs”) to license implementers of the standard on either royalty-free or “reasonable and non-discriminatory” (“RAND”) terms. See IEEE-SA Standards Board Bylaws § 6.2. What constituted a RAND commitment, or how one would meet it, was purposely not defined. See *id.* at § 6.2 (expressly disclaiming responsibility “for determining whether any licensing terms or conditions ... in any licensing agreements are reasonable or non-discriminatory”). The past few years, however, have seen an uptick in judicial and political interpretation of RAND. See, e.g., Memorandum Opinion, **In re: Innovatio IP Ventures LLC Patent Litigation**, No. 1:11-cv-0930, 2013 U.S. Dist. LEXIS 144061 (October 3, 2013) (“*Innovatio*”). Perhaps in response to this judicial attention, IEEE has revamped its definition of RAND to articulate for the first time some of the bounds of the member-SEP owner licensing obligations. Given IEEE’s importance as a SSO, its high visibility, the Department of Justice’s approval of IEEE’s approach, and the ongoing litigation to assign additional meaning to the term RAND, it seems probable that other SSOs will follow IEEE’s lead and add a measure of specificity to their own definitions of RAND.

For many SSOs, the ambiguity of a RAND commitment is both a feature and a bug. On the one hand, declining to define the nature of RAND obligations allows an SSO to reconcile the interests of different stakeholders. Members that own SEPs may not want to give up licensing revenue, whereas all members have a general interest in keeping the overall royalty stack relating to supporting the standard low in order to encourage the standard’s widespread adoption. By avoiding a definition of RAND, SSOs allow these diverse interests essentially to reserve the issue while the process of standard promulgation continues. Moreover, an SSO could raise antitrust concerns if it affords SEPs specific value. On the other hand, the lack of a definition for RAND has caused some judges, as well as the Department of Justice (“DOJ”), Patent & Trademark Office (“PTO”), and United States Trade Representative, to define RAND *post hoc*, thereby leading to the possibility that a SEP owner will be bound by terms to which it never would have agreed. See, e.g., *Innovatio* (court interpreting RAND);

US DOJ & US PTO, “Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments” (January 8, 2013), (U.S. DOJ and PTO interpreting RAND); Letter from United States Trade Representative Michael B. G. Froman to Hon. Irving Williamson, August 3, 2013, (U.S. Trade Representative interpreting RAND). In light of this trend, it is unsurprising that IEEE would seek to afford its membership as much certainty as possible on the nature of the encumbrances on SEPs.

IEEE’s revised Patent Policy sets forth the rights and obligations of a member-SEP owner as follows:

- In exchange for licensing its SEP, a patent holder may extract a “reasonable [royalty] rate,” defined as “appropriate compensation to the patent holder for the practice of [a SEP] excluding the value, if any, resulting from the inclusion of that [SEP’s] technology in the IEEE Standard.” Other considerations relevant to the determination of a reasonable rate include the marginal value of the SEP’s technology to the smallest saleable unit that supports the standard; the marginal value of the SEP’s technology to the smallest saleable unit that supports the standard in light of the value contributed by the stack of relevant SEPs; and licenses to the SEP that were not obtained under threat of injunction or exclusion order from the International Trade Commission (“ITC”);
- A patent holder may not limit the number of licenses it will offer to its SEPs;
- A patent holder may require a reciprocal license to another’s SEPs;
- A patent holder may not, as a condition of licensing its SEP, require another to license other, non-essential patents;
- A patent holder may not transfer ownership of SEPs to elude these encumbrances; and
- A patent holder may not seek an injunction or ITC exclusion order for articles that infringe a SEP without first seeking an adjudication of infringement, validity, essentiality, and/or damages, including “first-level appellate review.”

Even before the IEEE Board of Governors approved the revised Patent Policy, the Department of Justice gave its blessing, both from an antitrust and a policy perspective.

By bringing greater clarity to the IEEE RAND Commitment, the [revised patent policy] has the potential to facilitate and improve the IEEE ... standards-setting process. First, the Update may provide participants in IEEE ... standards-setting processes with better ex ante knowledge about licensing terms, potentially broadening ex ante competition among technologies for inclusion in a standard. Second, this information could facilitate both ex ante and ex post licensing negotiations, and reduce patent infringement litigation. A patent holder seeking compensation for patented technology it contributed to a standard should be compensated for its invention in a way that reflects the value of that technology; otherwise patent holders may become reluctant to contribute technology to standards or to invest in future research and development that leads to innovation. In the standards-setting context, voluntarily negotiated licensing agreements between a licensee and licensor that give each the benefit of the bargain they seek — implementers of the standard receive access to the technology they need to manufacture, market, and sell their products, while patent holders receive compensation that reflects the value of their technology — is the optimal result. Clarification of the IEEE RAND Commitment may help parties reach such outcomes: Finally, the

Update's provisions also may further help to mitigate hold up, ensure access to technology necessary to implement IEEE ... standards, and eliminate certain potentially anticompetitive practices.

Letter from Renata B. Hesse, Acting Assistant Attorney General, U.S. Dep't of Justice, to IEEE, p. 6 (February 2, 2015) (internal footnotes omitted). See Sokler and Slattery, "DOJ Releases Electrifying New Guidance on Standard-Essential Patent Policy" (February 10, 2015.)

With the Department of Justice indicating that SSOs may define RAND to some extent without running afoul of antitrust laws, and after a recent spate of rulings interpreting the term *post hoc*, it would be unsurprising to see other SSOs follow IEEE's lead. Additional clarity on the meaning of a RAND commitment promises at least to reduce litigation on the subject and to allow SSO members the opportunity to make a better-informed decision about offering their technology for inclusion in standards.

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